Health Net Life Insurance Company
Management's Discussion and Analysis
December 31, 2020

OVERVIEW

Introduction

This discussion provides management's assessment of the current financial position, results of operations, changes in capital and surplus and cash flow and liquidity for Health Net Life Insurance Company, National Association of Insurance Commissioners ("NAIC") #13970, a California- domiciled health maintenance organization (the "Company," "We," "Our," or "Us"), is a wholly-owned by Healthy Louisiana Holdings LLC ("HLH"). Centene Corporation ("Centene") owns all of the issued and outstanding shares of the Company's stock through HLH. The financial statement information included in this discussion is presented for reference only and should be read in conjunction with the Company's 2020 Annual Statement and Notes to the Financial Statements contained within the Annual Statement.

Company Background

During the year ended December 31, 2020, the Company continued to market preferred provider organization (PPO) health, exclusive provider organization (EPO) health, indemnity health, dental, vision, Medicare supplement, behavioral health, and life insurance products. Additionally, the Company provides healthcare services to individuals through government subsidized programs, including Medicare through its contract with the Centers for Medicare and Medicaid Services (CMS). The life insurance products marketed include group term life, accidental death and dismemberment (AD&D), supplemental term life, and dependent term life. The Company's accident and health products constitute the majority of the business and are offered in Arizona, California, Oregon and Washington.

The Company is subject to substantial federal and state government regulations including licensing and other requirements relating to the offering of government-sponsored health care programs, which may restrict the Company's ability to expand its business. Although, our contracts have been renewed for the past several years, there is no guarantee that they will continue to be renewed. In the event a contract is not renewed or the premium rates are reduced significantly, the operating results of the Company could be significantly constrained.

Basis of Presentation

The accompanying statutory-basis financial statements have been prepared in conformity with statutory accounting practices as prescribed or permitted by the Kentucky Department of Insurance ("the Department").

Uses of Estimates in the Preparation of the Financial Statements

These statutory-basis financial statements include certain amounts that are based on the management's estimates and assumptions. These estimates and assumptions may change in the future as more information becomes known, which could materially affect the amounts reported and disclosed herein. The most significant estimates relate to unpaid claims liability and premium income recognition. The effect of any changes in estimates is included in the determination of net income in the period in which the estimate is adjusted.

FINANCIAL CONDITION, LIQUIDITY & CAPITAL RESOURCES

Capital and Surplus

Capital and surplus as of December 31, 2020 and 2019, was $394.8 million and $375.6 million, respectively. Capital and surplus decreased in 2020, primarily due to $233.0 million in cash dividends, partially offset by net income of $238.7 million.

Minimum Surplus Requirement

California Statutes require that each California health insurance entity maintain a minimum surplus equal to the greater of the Company Action Level Risk Based Capital calculation or 600%. At December 31, 2020, the Company's required minimum capital and surplus was $157.0 million and the actual surplus of $394.8 million was in excess of this requirement.

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Capacity to Pay Dividends

Under the laws of the State of California, all dividends and other distributions to shareholders must be reported to the California Department. If surplus is determined by the Department not to be reasonable in relation to the insurer's outstanding liabilities and adequate to meet its financial needs, the Department shall have the authority to limit the amount of the dividends or distributions. No dividend or other distribution may be declared or paid at any time when the surplus of the insurer is less than the surplus required by law, or when the payment of a dividend or other distribution would reduce its surplus to less than such amount.

Admitted Assets

Total admitted assets at December 31, 2020 and 2019, were $700.7 million and $606.1 million, respectively. Cash, cash equivalents and invested assets at December 31, 2020, were $11.8 million as compared to $15.5 million at December 31, 2019.Cash, cash equivalents and invested assets consist of bonds, short-term investments, cash equivalents and cash in bank accounts. The decrease in cash, cash equivalent and invested assets was primarily driven by the $232.0 million of dividends paid to stockholders in 2020, partially offset by $238.7 million of net income.

The percentage of cash, cash equivalent and invested assets to total admitted assets was 60.2% and 76.6% at December 31, 2020 and 2019, respectively. The Company has no high-yield financings, highly-leveraged transactions, non-investment grade loans or non-investment grade securities.

Liabilities

Total liabilities at December 31, 2020 and 2019, were $305.8 million and $230.5 million, respectively. The increase is primarily due to a $62.1 million increase in amounts due to affiliates due to timing of Treasury settlements.

Unpaid claims were $9.8 millionat December 31, 2020 and $4.5 million, at December 31, 2019. Days in claims payable was 7 days at December 31, 2020 and 3 days at December 31, 2019. We believe that the unpaid claims reserve is adequate to cover the ultimate liability for unpaid claims recorded as of that date; however, actual claim payments and other items may differ from established estimates.

Cash Flow and Liquidity

We have financed our operations primarily through internally-generated funds. Cash is generated from Marketplace and Medicare premium revenue and interest income. The primary use of cash is the payment of expenses related to medical benefits, administrative expenses and dividends to Parent. Premium revenue is generally received in advance of payment of claims for related healthcare services. We expect that future funding for working capital needs and other financing activities will continue to be provided from these resources.

The Company's cash, investments and capital structure are managed to enable meeting the short- and long-term obligations of the Company's business while maintaining financial flexibility and liquidity, and are forecasted, analyzed, and monitored to enable investment and financing within the overall constraints of the Company's financial strategy.

The net cash inflow from operations was $183.9 million for the year ended December 31, 2020, as compared to the net cash inflow of $24.2 million in 2019. The fluctuation in net cash from operations was primarily due to the increase in premiums collected related to the ACA Risk Corridor settlement. We believe that, based on our operating cash flow and funds on hand, we have sufficient capital resources to meet all existing and future cash obligations.

RESULTS OF OPERATIONS

Membership and Premiums

Our overall premium revenue increased from $0.7 billion in 2019, to $0.9 billion in 2020. The increase in premium was mainly the result of the ACA Risk Corridor settlement. At December 31, 2020, our net membership increased to 842,794 as compared to 588,805 at December 31, 2019. Member months were 9,856,465 at December 31, 2020, and 7,115,613 at December 31, 2019.

Hospital and Medical Expense

Our hospital and medical benefit expenses, net of reinsurance recoveries, decreased from $589.1 million in 2019, to $500.5 million in 2020. The decrease was primarily due to a lower medical benefits ratio.

The medical benefits ratio ("MBR") was 56.4% for the year ended December 31, 2020, as compared to 79.6% for the year ended December 31, 2019. Net favorable prior year development of claims unpaid liability amounted to $19.9 million in 2020, as compared to the $55.5 million favorable development experienced in 2019.

Claims Adjustment and General Administrative Expenses

The Company has a management services agreement with Centene Management Company, LLC ("CMC"). Under the agreement, the Company pays CMC a fee based on a percentage of its monthly revenue for which CMC provides the services necessary to manage the business operations of the Company and assumes responsibility for all associated costs. CMC assumes responsibility for program planning and development, management information systems, financial systems and services, facilities arrangement, claims administration, provider and enrollee services and records, case management, care coordination, utilization and peer review, and quality assurance/quality improvement. In addition, under the agreement, the Company also pays other direct costs associated with the business not covered by the management services agreement.

For the year ended December 31, 2020, claims adjustment and general and administrative expenses were $40.8 million as compared to 43.6 million for the year ended December 31, 2019. As a percentage of premium revenue, claims adjustment and general administrative expenses decreased to 4.6% in 2020, from 5.9% in 2019. The decrease in 2020, claims adjustment and general administrative expenses was driven by lower commissions expense in 2020 compared to 2019.

Claims adjustment and general administrative expenses consist primarily of management fees paid by the Company, sales and marketing expenses and other direct expenses.

Net Income (Loss)

For the year ended December 31, 2020, the net income was $238.7 million, as compared to net income of $66.6 million in 2019. The increase was primarily driven by the Supreme Court ruling in favor of issuers in Moda Health Plan, Inc. et al. v. United States in which issuers sought payment of unpaid risk corridors amounts from 2014, 2015, and 2016. As part of that settlement, Health Net Life Insurance Company received $310.0, and $76.8 was ceded to Health Net Life Reinsurance Company per the quota share agreement in place between those entities. The net remaining collection related to the SCOTUS ruling is $233.0 after ceding.

RISKS AND UNCERTAINTIES

The Company's profitability depends in large part on accurately predicting and effectively managing medical service costs. The Company continually reviews its premium and benefit structure to reflect its underlying claims experience and revised actuarial data; however, several factors could adversely affect the medical service costs. Certain of these factors, which include changes in healthcare practices, inflation, new technologies, major epidemics, natural disasters, and malpractice litigation, are beyond any health plan's control and could adversely affect the Company's ability to accurately predict and effectively control healthcare costs. Costs in excess of those anticipated could have a material adverse effect on the Company's results of operations.

Based on the nature of our business, we are subject to regulatory reviews or other investigations by government agencies.

Capital Expenditure Commitments

The Company had no material commitments for capital expenditures as of December 31, 2020.

OFF BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements to disclose.

PROSPECTIVE INFORMATION

The Company is not providing any additional prospective information other than that which is discussed in or can be derived from the discussion above.